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	EB-01	EXIM-06	E-01	FBO-01	FRB-03	HA-09	H-01
	IMMC-01	INRE-00	INR-01	ITC-01	JUSE-00	LAB-04	L-03
	ADS-00	M-01	NSAE-00	NSCE-00	OCS-06	OMB-01	OPIC-08
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USDOC WASHDC IMMEDIATE
INFO AMEMBASSY BOGOTA
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AMEMBASSY LIMA
AMEMBASSY QUITO PRIORITY

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QUITO FOR PDAS GELBARD AND DAS MCLEAN

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USDOC FOR 3134/USFCS/OIO/D/WH/RMILLER

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PLEASE PASS FEDERAL RESERVE BOARD FOR TIM WILSON AND NY
FED FOR ELLIOTT UCHITELLE

E.O. 12356: N/A
TAGS: EFIN, VE
SUBJECT: FINANCIAL MARKETS REOPEN AFTER COUP ATTEMPT

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: OSCAR J OLSON
DATE/CASE ID: 24 JUL 2006 200503206

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REF: CARACAS 1192

1. SUMMARY. ON FEBRUARY 6, VENEZUELA'S FOREIGN EXCHANGE MARKET AND THE CARACAS STOCK EXCHANGE REOPENED FOR THE FIRST TIME SINCE FEBRUARY 3, THE DAY BEFORE THE COUP ATTEMPT. THE MARKETS WERE CALM. THE PRICE OF THE DOLLAR CLIMBED TO 63.50/64.00 BOLIVARES AT THE CLOSE FROM THE PREVIOUS CLOSE OF 62.18/62.25 BOLIVARES ON FEBRUARY 3. (IN THE LATE MORNING OF FEBRUARY 7, THE DOLLAR WAS TRADING AT 63.80/64.05 BOLIVARES AND THE MARKET WAS CALM.) THE CENTRAL BANK SOLD A RELATIVELY LARGE AMOUNT OF DOLLARS TO KEEP THE DOLLAR STABLE ON FEBRUARY 6; HOWEVER, CENTRAL BANK OFFICIALS POINT OUT THAT THE AMOUNT WAS NOT SO LARGE AFTER THE FOREIGN EXCHANGE MARKET HAD BEEN CLOSED FOR TWO DAYS. THE CENTRAL BANK RAISED ITS INTEREST RATE ON DIRECT SALES OF ZERO COUPON BONDS IN ORDER TO ABSORB BOLIVAR LIQUIDITY AND THUS, EASE PRESSURE ON THE DOLLAR IN THE EXCHANGE MARKET. A SENIOR CENTRAL BANK OFFICIAL ANNOUNCED THAT

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THE CENTRAL BANK'S FREELY FLOATING, UNIFIED EXCHANGE RATE POLICY WOULD NOT CHANGE. A CENTRAL BANK OFFICIAL TOLD US THAT NO NEW MEASURES WERE PLANNED TO CALM THE EXCHANGE MARKET ON FEBRUARY 7 BUT THE CENTRAL BANK WAS MONITORING THE MARKET CLOSELY AND WOULD SELL DOLLARS AS REQUIRED TO MAINTAIN AN ORDERLY MARKET. OBSERVERS EMPHASIZE THAT THE CENTRAL BANK'S LARGE FOREIGN EXCHANGE RESERVES (ABOUT USD 14 BILLION) ENSURE EXCHANGE MARKET STABILITY. THE STOCK MARKET DECLINED SLIGHTLY WITH THE BROAD INDEX DROPPING BY ABOUT TWO PERCENT. END SUMMARY.

FOREIGN EXCHANGE MARKETS REOPEN

2. ON FEBRUARY 6, THE FOREIGN EXCHANGE MARKETS OPENED FOR THE FIRST TIME SINCE FEBRUARY 3, THE DAY BEFORE THE COUP ATTEMPT. TRADING WAS HEAVY THROUGH THE SESSION. THE DOLLAR CLOSED AT 63.50/64.00 BOLIVARES AT BANKS AND 63.28/63.83 AT EXCHANGE HOUSES. THE DOLLAR CLOSED AT 62.18/62.25 AT BANKS IN THE PREVIOUS SESSION ON FEBRUARY 3.

3. SHORTLY AFTER THE SESSION OPENED THE DOLLAR JUMPED TO A PRICE OF 63.50. LATER, CORPORATE DEMAND FOR

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DOLLARS SURGED. THE CENTRAL BANK REPORTEDLY RESPONDED BY SELLING DOLLARS HEAVILY. THE CENTRAL BANK, WHICH HAS BEEN SELLING ABOUT USD 20 MILLION DAILY, IN THE EXCHANGE MARKET INCREASED SALES TO ABOUT USD 60 MILLION ON FEBRUARY 6. DESPITE THIS, THE BOLIVAR PRICE OF THE DOLLAR CONTINUED TO CLIMB LATE IN THE SESSION. AFTER THE MARKETS CLOSED ON FEBRUARY 6, A RESPECTED PRIVATE LIMITED OFFICIAL USE

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SECTOR FINANCIAL ADVISOR COMMENTED THAT THE CENTRAL BANK'S STRONG RESERVE POSITION (ABOUT USD 14 BILLION) ENSURES EXCHANGE MARKET STABILITY.

4. ON FEBRUARY 7, A CENTRAL BANK OFFICIAL TOLD US THAT IN THE FEBRUARY 7 MORNING SESSION, AFTER AN INITIAL RISE IN THE BOLIVAR PRICE OF THE DOLLAR PROMPTED BY "DISTORTED PRESS REPORTS," THE DOLLAR WAS TRADING AT ABOUT 63.80/64.05 BOLIVARES AND THE MARKET WAS "RELATIVELY CALM."

A SENIOR CENTRAL BANK OFFICIAL COMMENTS

5. IN STATEMENTS TO THE PRESS ON FEBRUARY 6, THE CENTRAL BANK'S VICE PRESIDENT JOSE VICENTE RODRIGUEZ AZNAR DECLARED THAT THE FOREIGN EXCHANGE MARKETS BEHAVED

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WITH "TOTAL NORMALITY" ON FEBRUARY 6. HE NOTED THAT
 MARKET PARTICIPANTS, INCLUDING FIRMS, WERE VERY
 PRUDENT. THE OFFICIAL MAINTAINED THAT THE DEMAND FOR
 DOLLARS WAS ONLY SLIGHTLY GREATER THAN WHAT IT SHOULD

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HAVE BEEN AFTER A TWO DAY CLOSING OF THE MARKETS.

CENTRAL BANK TO CONTINUE EXCHANGE RATE POLICY

6. IN HIS COMMENTS TO THE PRESS ON FEBRUARY 6, CENTRAL BANK VICE PRESIDENT RODRIGUEZ AZNAR EMPHASIZED THAT THE CENTRAL BANK WOULD CONTINUE ITS POLICY OF A FREELY FLOATING, UNIFIED EXCHANGE RATE. HE ARGUED THAT THE OUTLOOK FOR THE DOLLAR-BOLIVAR RELATIONSHIP WILL DEPEND ON FUTURE INFLATION AND INTEREST RATES.

7. IN THE MORNING OF FEBRUARY 7, CENTRAL BANK OFFICIALS TOLD US THAT THE INSTITUTION DID NOT PLAN TO TAKE ANY SPECIAL MEASURES TO ENHANCE EXCHANGE MARKET STABILITY ON LIMITED OFFICIAL USE

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FEBRUARY 7. THE OFFICIALS EMPHASIZED THAT SOME FEBRUARY 7 PRESS ARTICLES, WHICH REPORTED ON THE OPENING OF THE MARKETS, WERE COMPLETE DISTORTIONS. IN PARTICULAR, ONE CENTRAL BANK OFFICIAL WITH WHOM WE SPOKE, SINGLED OUT A HEADLINE ON THE FRONT PAGE OF THE CARACAS DAILY EL NACIONAL. THAT PAPER REPORTED THAT THE CENTRAL BANK HAD DECIDED TO DEVALUE THE BOLIVAR AND HAD CHOSEN A TARGET OF 65 BOLIVARES TO THE DOLLAR. ACCORDING TO THE NEWSPAPER, THE DEVALUATION WOULD GENERATE ADDITIONAL BOLIVAR REVENUES TO COVER THE GOV'S FISCAL DEFICIT. THE CENTRAL BANK OFFICIAL DENIED COMPLETELY THAT ANY SUCH DECISION HAD BEEN TAKEN. HE EMPHASIZED THAT THE INSTITUTION HAD NOT SET AN EXCHANGE RATE TARGET BUT HAD AS ITS OBJECTIVE, A MARKET COMPETITIVE REAL EXCHANGE RATE. FURTHERMORE, HE REITERATED THE POSITION CLEARLY STATED BY RODRIGUEZ AZNAR ON FEBRUARY 6, THAT THE CENTRAL BANK WOULD NOT CHANGE ITS EXCHANGE RATE POLICY. THE OFFICIAL TOLD US, HOWEVER, THAT THE CENTRAL BANK WOULD INTERVENE IN THE MARKET TO SELL DOLLARS AS NECESSARY TO MAINTAIN AN ORDERLY EXCHANGE MARKET.

STOCK EXCHANGE REOPENS

8. LATE IN THE EVENING OF FEBRUARY 5, ACCORDING TO PRESS REPORTS, THE CENTRAL BANK ORDERED THE CARACAS STOCK EXCHANGE TO OPEN FULLY ON FEBRUARY 6 INSTEAD OF FEBRUARY 7 AS THE STOCK EXCHANGE'S BOARD OF DIRECTORS HAD DECIDED EARLIER (REF). (CENTRAL BANK INTERVENTION

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IN THE DECISION WAS DENIED BY RODRIGUEZ AZNAR.) THE
CENTRAL BANK ARGUED THAT THE SITUATION WAS BACK TO
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NORMAL AND THERE WAS NO REASON FOR THE EXCHANGE NOT TO
OPEN. THE PRESIDENT OF THE CARACAS EXCHANGE JUAN
CORDERO SAID THAT THE EXCHANGE'S BOARD REVERSED ITS
EARLIER DECISION FOLLOWING THE CENTRAL BANK'S
INSTRUCTION WHICH HAD THE SUPPORT OF THE MINISTRY OF
FINANCE AND THE NATIONAL BANKING COUNCIL. (THE PRESS
REPORTED THAT THE MARACAIBO STOCK EXCHANGE REMAINED
CLOSED ON FEBRUARY 6 AND PLANNED TO REOPEN ON FEBRUARY
7.)

9. PRICES ON THE CARACAS STOCK EXCHANGE DROPPED
SLIGHTLY ON FEBURARY 6. THE EXCHANGE'S BROAD MARKET
INDEX FELL BY TWO PERCENT; HOWEVER, SOME SHARE PRICES
FELL MUCH MORE. THE VALUE OF TRANSACTIONS TRADED (1,782
MILLION BOLIVARES OR ABOUT USD 27.84 MILLION) WAS ABOUT
THE SAME AS THE LAST SESSION ON FEBRUARY 3. THE
MARKET'S DECLINE WAS MUCH LESS THAN WHAT WAS ANTICIPATED
BY TRADERS AND EXCHANGE OFFICIALS. TRADERS GENERALLY
AGREED THAT THE SESSION WAS NORMAL WITHOUT ANY PANIC.

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SEVERAL TRADERS NOTED THAT MUTUAL FUNDS REDUCED THEIR
 POSITION IN STOCKS IN ORDER TO INCREASE LIQUIDITY.

ZERO COUPON BONDS

10. THE CENTRAL BANK CONTINUED ITS PROGRAM OF DIRECT

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PLACEMENT OF ZERO COUPON BONDS. REPORTEDLY, THE INTEREST RATE ON BONDS SOLD ON FEBRUARY 6 WAS 27.99 PERCENT FOR 29 DAY BONDS AND 31.23 PERCENT FOR 29 DAY BONDS. THESE INTEREST RATES WERE SIGNIFICANTLY HIGHER THAN THE 23.95 PERCENT FOR 30 DAY BONDS WHICH THE CENTRAL BANK SOLD DIRECTLY TO INSTITUTIONS ON FEBRUARY 5, THE DAY AFTER THE COUP ATTEMPT WHEN THE COMMERCIAL BANKS REOPENED FOR BOLIVAR TRANSACTIONS. THE CENTRAL BANK'S DECISION TO RAISE THE ZERO COUPON BOND INTEREST RATE ON FEBRUARY 6 WAS INTERPRETED AS A STEP TO ABSORB BOLIVAR LIQUIDITY TO REDUCE PRESSURE ON THE EXCHANGE RATE.

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COMMENT

11. WE BELIEVE THAT THE CENTRAL BANK'S POSITION IS CLEAR. THERE WILL BE NO CHANGE IN ITS EXCHANGE RATE POLICY. FURTHERMORE, THE CENTRAL BANK WITH ABOUT USD 14 BILLION IN FOREIGN EXCHANGE RESERVES WILL INTERVENE (SELLING DOLLARS) TO THE EXTENT NECESSARY TO MODERATE FLUCTUATIONS IN THE EXCHANGE MARKET.

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